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*CANADIAN HOMESTEAD OILS*  
*Limited*



*1964 Annual Report*

## HIGHLIGHTS

### Financial

	<u>1964</u>	<u>1963</u>
Gross income	\$ 745,000	\$ 720,000
Cash flow	234,000	269,000
Profit before depreciation, depletion and special charge	107,000	140,000
Net (loss) for the year	<u>(4,000)</u>	<u>(19,000)</u>
Working capital	976,000	1,485,000
Exploration and development expenditures	182,000	103,000

### Operating

Oil and condensate production — net barrels	169,000	156,000
Gas production — net Mcf	714,000	547,000
Gross acreage owned	3,658,000	3,309,000
Net working interest acreage owned	1,319,000	1,089,000

### Drilling Programs

Investment funds (approximate)	3,000,000	3,000,000
Wells drilled	39	35
Successful wells	20	18

# CANADIAN HOMESTEAD OILS *Limited*

## Directors

BRUCE W. WATSON <i>President</i>	Calgary, Alberta
H. ROSS BOLTON <i>Vice-President, Ambassador Oil Corporation</i>	Fort Worth, Texas
WALTER D. FLOERSHEIMER, <i>Senior Partner, Sutro Bros. &amp; Co.</i>	New York, New York
BASIL O. JONES <i>Executive</i>	Vancouver, British Columbia
JOHN M. ROBERTSON, Q.C., <i>Barrister and Solicitor</i>	Calgary, Alberta

## Officers and Key Personnel

Bruce W. Watson	PRESIDENT
A. Gordon Savage, B.Sc., P.Eng.	VICE-PRESIDENT - OPERATIONS
Duane E. Wikant, B.Comm., C.A., F.C.I.S.	SECRETARY-TREASURER
C. Delwyn Borggard	ASSISTANT SECRETARY
Kenneth A. Wallace, B.Sc., P.Eng.	EXPLORATION MANAGER
William J. Smart, B.Sc., P.Eng.	CHIEF ENGINEER

## Registrar and Transfer Agents

THE CROWN TRUST COMPANY	Calgary, Montreal, Toronto
REGISTRAR AND TRANSFER COMPANY	New York, Jersey City

## Auditors

PEAT, MARWICK, MITCHELL & Co.	Calgary, Alberta
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## Bankers

THE ROYAL BANK OF CANADA	Calgary, Alberta
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The Company's Capital Stock is listed on the American,  
Canadian, Toronto and Pacific Coast Stock Exchanges.

EXECUTIVE OFFICES: 132 NINTH AVENUE SOUTH WEST, CALGARY, ALBERTA



# Report of the Directors

## TO THE SHAREHOLDERS

The 1964 fiscal year was evidenced by a marked increase in production, land holdings and drilling activity. Productive petroleum interest additions during the year included the purchase of another oil and gas producing company and the development of a number of proven prospects.

### FINANCIAL

Gross income for 1964 increased to \$745,000 of which \$400,000 was realized in the last six month period, an increase of 25% over the first half of the year. Oil and gas income was 11% higher than in the preceding year. Cash operating profit of \$234,000 was 13% less than in 1963, primarily as the result of non-recurring administrative charges. It is to be noted however, that of this amount, \$183,000 was realized during the last half of the year. Indications are that the trend established during the latter half of 1964 will continue into the 1965 fiscal year and result in record earnings for the Company.

The net loss after all charges including depreciation, depletion and non-recurring items was \$4,000 in 1964 compared to \$19,000 in the preceding year.

Working capital at May 31, 1964 stood at \$976,000 a 34% decrease below that of May 31, 1963. Investment of working capital in oil and gas interests, development drilling and gas processing facilities was the main reason for this reduction.

### PRODUCTION

Net oil and condensate production amounted to 169,000 barrels in 1964 as compared to 156,000 barrels in 1963. Production of natural gas was 714 million cubic feet in 1964 compared with 547 million cubic feet in the previous year. These increases reflect the emphasis placed by the Company on the acquisition of productive petroleum and natural gas interests and on an active exploration and development program.

### OPERATIONS

The Company's Operating Division experienced another successful year during which it supervised the drilling of 39 wells on behalf of Canadian Homestead and others. The revenue generated by this Division through its management and consulting functions serves to defray appreciably, the overall administrative costs of the organization.

### DRILLING

During the year Canadian Homestead held an interest in 76 wells drilled; 56 of these were completed as oil wells, 1 as a gas well and 19 were dry holes.

## **EXPLORATION**

The most significant exploratory prospect was in the Ante Creek Area of Northwestern Alberta where a successful Slave Point oil well was drilled on a 960 acre lease block. The Company holds a 37½% interest in this acreage on which development drilling is presently being carried on.

## **GENERAL**

Canadian Homestead shares the present optimism of the oil and gas industry in Western Canada and foresees increased activity in all phases of its operations during the coming fiscal year. It is estimated that the industry record for footage drilled in one year will be eclipsed with exploratory activity now at its highest level in several years. Increased sales of crude oil and products together with anticipated approval of gas export applications should ensure a continuation of the present activity level.

The achievements of the past year are the direct result of the ability and initiative of all our employees and the Directors take this opportunity to thank them for their efforts on behalf of the Company.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "J. D. L. atson", with a long horizontal flourish extending to the right.

For the Board of Directors.



## Oil and Gas Production

Net oil and condensate production increased by 8% over 1963, to 169,000 barrels, while net sales of natural gas totalled 714 million cubic feet, an increase of 30% over the preceding year.

The purchase during the year of productive petroleum properties supplemented by the Company's own development drilling gave rise to the net barrel increase, while recently developed gas properties in the Gilby Area of Alberta constituted the main source of the increase in natural gas sales. The full effect of this additional production will not be evident until the coming fiscal year.

## Management Operations

During the year the Company's management subsidiary, Petcal Company Limited, expended on behalf of Canadian Homestead and others, approximately 3 million dollars in investment funds. This included the drilling of 39 wells, added development of Willesden Green Cardium Unit No. 2 and construction of a gas plant at Gilby, Alberta.

Gross revenue for the year from management and consulting services totalled \$239,000 which contributes significantly in defraying the overall administrative costs of the organization.

## Exploration

The Company maintained an aggressive exploration program during the past year and evaluated many attractive prospects. A policy of initiating prospects and having them developed by third parties at a minimum cost to Canadian Homestead continues to highlight our exploration activities.

The most significant program involved a farm-out from Pan American Petroleum Corporation in the Ante Creek Area of Northwestern Alberta. This farmout required the drilling of three wells to earn a 100% interest in three blocks of acreage with an option to earn additional acreage by drilling a fourth well. The three wells were drilled and abandoned, however, the option well was completed as a Slave Point oilwell. A second development well is presently drilling on the Option Block and should be followed by a third later in the year. The Company's interest in this program is 37½%.

Canadian Homestead recently acquired a farm-out of a 11,520 acre Drilling Reservation located

approximately eight miles west of the Ante Creek Option Block. This farmout requires the drilling of a well to the Slave Point formation at a depth of approximately 11,700 feet. The Company will retain a substantial working interest and is sharing costs with a number of partners. The acreage lies in a highly prospective area.

In the Goose River Area which lies 35 miles northeast of the Ante Creek Field, Canadian Homestead and partners drilled an exploratory well on a Drilling Reservation acquired under farmout. This well was abandoned, however an interest was earned in 2,560 acres of lease selected from the Drilling Reservation. As a result of recent successful development in the area by other companies, it now appears that 800 acres of Crown lease earned under the farmout lie on trend with this development.

An unsuccessful Pre-Cambrian test well was drilled during the year on our Drilling Reservation in the Girouxville Area of Northern Alberta. This was a follow-up to the initial Pre-Cambrian test which was plugged back to the Gething-Bluesky formation and completed as a gas well. A third well is planned for the near future, to be located within one mile of the initial discovery, in an attempt to develop the reserves in this area. Drilling to date has earned leases in the Drilling Reservation plus a 50% interest in approximately 49,900 additional acres of Crown Lease.

The Company has also continued its exploration activities in Central Alberta. In the Paddle River Area it participated in the drilling of a Mississippian test well on a jointly owned Drilling Reservation. Canadian Homestead's share of the costs were reduced by contributions and through participation by another Company. The well was abandoned, however, leases have been retained and continue to offer potential for gas production in several zones.

Canadian Homestead recently joined with two other companies in the drilling of a Leduc test well on a 1,600-acre farmout acquired from The California Standard Company in the Buffalo Lake Area. The well was abandoned, however, the retained acreage appears highly favorable for reef occurrence and the Company is actively pursuing further projects in the area.

The Southern portion of the Province has experienced a significant increase in activity during the past year and your Company has evaluated numerous prospects throughout this region.



**ALBERTA**

**ATHABASCA TAR SANDS**

**PEACE RIVER**

**GIBBOUS**

**W. ANTE CK.**

**ANTE CK.**

**S. ANTE CK.**

**McCLEOD R.**

**PADDLE R.**

**N.E. WILL. GREEN**

**WILLEDEN GREEN UNIT 2**

**LEAFLAND UNIT 1**

**BREWSTER RANCH**

**PANTHER R.**

**RED DEER**

**PENHOLD**

**BUFFALO LK.**

**E. DRUMHELLER**

**VULCAN**

**BARONS**

**LETHBRIDGE**

**MEDICINE HAT**

**HATTON**

**EDMONTON**

**CALGARY**

**LETHBRIDGE**

**Medicine Hat**

**Map Showing Major Land Holdings of Canadian Homestead Oils Ltd.**

**LEGEND**

Scale — Miles

0 35 70

Oil Field

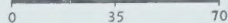
Gas Field

Land Holdings

MAP SHOWING MAJOR LAND HOLDINGS  
OF  
**CANADIAN HOMESTEAD OILS LTD.**

### LEGEND

Scale — Miles

Oil Field 

Gas Field 

Land Holdings 

Montana



Canadian Homestead farmed out its interest in 2,000 net acres of lease in the Vulcan Area and was carried at no cost in the drilling of a Mississippian test well which was abandoned at a depth of 6,300 feet.

Other areas in Alberta in which Canadian Homestead has either carried out drilling or received the benefit of substantial activity from others, include Sundre, East Drumheller, Clive, Hamilton Lake, Jossard, Driedmeat Lake, Airdrie and Thorsby.

Your Company has extended its area of active exploratory operations to include the Province of Saskatchewan and more recently the Province of Manitoba.

Three prospects located in the Kisbey, Creelman and Rosebank Areas of Southeastern Saskatchewan were tested by drilling during the year and each was considered to have better than average potential. The three wells, drilled as Mississippian tests, were found to be non-productive. The Company was joined by partners in each prospect and paid only a small part of the cost of these wells but retained a substantial interest.

The acreage retained in these areas is still considered prospective and a second farmout has been obtained in the Rosebank Area on the basis of information obtained from the first well. A well drilled on this farmout, located to the southwest and on trend with the original Rosebank well, has been completed as an oil discovery with production testing presently being carried out. The Company's interest in this prospect is 33⅓%.

During the past year Canadian Homestead acquired 126,700 acres in the Pugwash and Glace Bay Areas of Nova Scotia and on the Grand Banks, off the Coast of Newfoundland. Subsequent to the acquisition of the Pugwash acreage a well, approximately 10,000 feet in depth, was drilled in the immediate vicinity but was apparently non-productive. The property in the Glace Bay Area of Cape Breton Island continues to possess excellent potential and it is anticipated that additional exploration activity will soon be carried on in this area.

The Company has also acquired 177,800 acres on the Grand Banks, adjacent to those of a major company. This company is currently carrying out seismic exploration and reports indicate that offshore drilling could be commenced within two years.

Exploration of the Arctic Region has continued active during the past year with two wells being drilled on Arctic Islands. One well was located about one mile north of a 66,000 acre block held by the Company, however it did not encounter

oil or gas in commercial quantities and was abandoned.

The Arctic continues to hold considerable promise and Canadian Homestead plans to maintain its large land position both in the Arctic Islands and in the Mackenzie River District.

## Development Prospects

The Company is continuing to carry out an extensive development program which primarily encompasses the exploitation of properties which it has held for several years.

The principal development project during the past year was participation in the building of a gas plant in the Gilby Area. Canadian Homestead operates and is the largest owner of this plant which is capable of processing in excess of 7.5 million cubic feet of gas per day.

At present all gas processed by the plant is being obtained from one well, however another well is presently being drilled by Homestead and partners to more fully utilize the plant facilities.

Plans are presently being made to dually complete another well which was drilled about four years ago in the Gilby Area. This well is located approximately two miles east of the Company's plant and has been producing oil from the Viking Sand. It is now proposed to produce the well from the Mississippian gas zone as well.

The Company-operated secondary recovery project in the Willesden Green Cardium oilfield has proved most successful, with daily production doubled in the last twelve months.

In the Leafland and South Willesden Green fields Company-operated water flood projects presently under construction will encompass 22 and 13 Cardium oil wells respectively.

During the year three additional wells have been drilled in the Pembina Area on behalf of Canadian Homestead and a partner. The Company participated for a 10% interest plus the retention of a 6% gross overriding royalty on production. Two of the three wells drilled were completed as oil wells and the third was abandoned.

During the year the Company and partners acquired two Drilling Reservations in the Hatton Area of Saskatchewan and it is anticipated that a well will soon be drilled on each reservation in an attempt to prove substantial gas reserves. If drilling is successful, plans are to consolidate a large block of acreage to enable commencement of a development drilling program.



## Seven Year Statistical Summary

### Financial

	1964	1963	1962	1961	1960	1959	1958
Net oil and gas sales (2) . . .	\$ <b>319,000</b>	\$ 305,000	\$ 323,000	\$ 325,000	\$ 407,000	\$ 403,000	\$ 321,000
Gross income (2 and 3) . . .	<b>745,000</b>	720,000	612,000	2,544,000	2,513,000	2,152,000	2,257,000
Well operating, contract drilling, administration and interest expense (2 and 3)	<b>511,000</b>	452,000	406,000	2,268,000	2,089,000	1,865,000	1,835,000
Cash flow . . . . .	<b>234,000</b>	269,000	206,000	276,000	424,000	287,000	422,000
Profit (loss) before deprecia- tion, depletion and special charge (credit) . . . . .	<b>107,000</b>	140,000	(58,000)	(22,000)	123,000	99,000	(146,000)
Net profit (loss) . . . . .	<b>(4,000)</b>	(19,000)	12,000	(620,000)	(652,000)	(480,000)	(735,000)
Exploration and development expenditures (4) . . . . .	<b>182,000</b>	103,000	38,000	55,000	45,000	28,000	253,000
Working capital . . . . .	<b>976,000</b>	1,485,000	1,348,000	1,020,000	791,000	501,000	200,000
Property accounts — gross (2 and 3) . . . . .	<b>2,820,000</b>	2,225,000	2,437,000	2,538,000	5,968,000	6,096,000	6,057,000
Long term debt . . . . .	—	—	—	—	534,000	385,000	133,000

### Operating

#### Production

Oil and condensate — net barrels (2) . . . . .	<b>169,000</b>	156,000	155,000	155,000	210,000	194,000	147,000
Gas — net Mcf . . . . .	<b>714,000</b>	547,000	733,000	733,000	659,000	666,000	248,000

#### Land Holdings

Gross acres . . . . .	<b>3,658,000</b>	3,309,000	3,172,000	2,856,000	6,134,000	4,557,000	4,233,000
Net working interest acres	<b>1,319,000</b>	1,089,000	575,000	325,000	2,279,000	675,000	632,000

### Drilling Programs

Investment funds (5) . . .	<b>3,000,000</b>	3,000,000	1,600,000	1,000,000	1,300,000	1,200,000	
Wells drilled . . . . .	<b>39</b>	35	23	12	9	11	
Successful wells . . . . .	<b>20</b>	18	22	10	9	4	

(1) The above statistics are for Canadian Homestead Oils Limited and its subsidiary Companies at May 31.

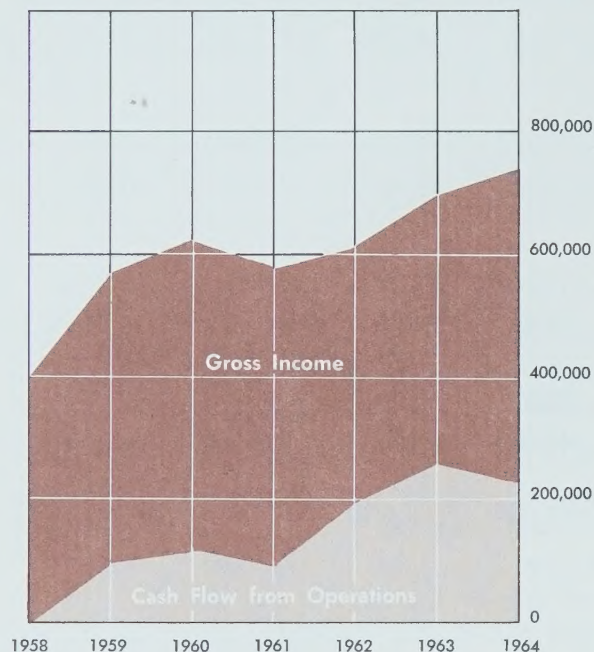
(2) Gives effect to the sale on June 1, 1960 of certain producing properties in the Province of Saskatchewan.

(3) Gives effect to the sale on May 31, 1961 of all the assets related to the drilling division of Canadian Homestead Oils Limited.

(4) Includes both capital and expense items.

(5) Represents the approximate dollar amount of investors funds expended by the Company in its Management capacity.

## FINANCIAL REVIEW



Operations for the 1964 fiscal year resulted in gross income of \$745,000 as compared to \$720,000 for the preceding year. This increase results primarily from higher sales of oil and gas plus a rise in royalty revenue.

Cash flow from operations decreased by \$35,000 to \$234,000 in 1964. This reduction is mainly attributable to an increase in general and administrative expense resulting from non-recurring administrative charges during the year.

During the last six months of the year gross income amounted to \$400,000 (54% of 1964 total) while cash flow from operations was \$183,000 (78% of 1964 total). Indications are that this trend will continue into 1965 and result in record earnings for the Company.



The net loss for the year after deducting all charges was \$4,000 as compared to \$19,000 in 1963.

Capital expenditures for producing oil and gas interests were considerably higher in 1964 than in preceding years resulting in a decrease in the working capital of the Company. The statement on the offsetting page of this report reflects the change in working capital during the year.



# CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

(YEAR ENDED MAY 31, 1964)

(with comparative figures for the 1963 year)

	1964	1963
<b>SOURCE OF FUNDS:</b>		
Cash generated from operations before other charges . . . . .	\$ 234,035	\$ 268,685
Long term receivable becoming current . . . . .	60,000	55,000
Sales of property and equipment . . . . .	24,497	95,981
Decrease (increase) in refundable deposits . . . . .	24,515	(33,471)
Miscellaneous sources of funds . . . . .	2,012	3,649
	<u>\$ 345,059</u>	<u>\$ 389,844</u>
<b>USE OF FUNDS:</b>		
Exploration expenses and undeveloped property rentals . . . . .	\$ 134,879	\$ 108,407
Expenditures for property and equipment . . . . .	291,832	74,066
Payment of long term liabilities of subsidiary company . . . . .	122,512	—
Investment in shares of subsidiary company . . . . .	173,557	4,000
Net current liabilities of subsidiary company acquired . . . . .	33,932	—
Provision for decline in market value of investments . . . . .	—	61,198
Long term note received on sale of capital assets . . . . .	92,705	—
Miscellaneous use of funds . . . . .	4,958	5,181
	<u>\$ 854,375</u>	<u>\$ 252,852</u>
Increase (decrease) in Working Capital . . . . .	<u>\$ (509,316)</u>	<u>\$ 136,992</u>

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Canadian Homestead Oils Limited and subsidiary companies as of May 31, 1964 and the consolidated statement of earnings and deficit for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statement of earnings and deficit are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company and its subsidiaries at May 31, 1964, and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.  
July 30, 1964.

PEAT, MARWICK, MITCHELL & Co.,  
Chartered Accountants.

# CANADIAN HOMESTEAD OILS LIMITED *and subsidiary companies*

ASSETS	1964	1963
CURRENT:		
Cash and deposit receipts . . . . .	\$ 715,501	\$ 408,771
Accounts receivable . . . . .	460,422	464,626
Notes receivable — current portion . . . . .	60,000	55,000
Marketable securities — at cost (quoted market value 1964—\$83,106; 1963—\$818,202) . . . . .	38,571	810,038
Prepaid expenses and performance deposits . . . . .	5,496	9,671
Total current assets . . . . .	<u>\$1,279,990</u>	<u>\$1,748,106</u>
NOTES RECEIVABLE — NOTE 3 . . . . .	<u>\$ 227,705</u>	<u>\$ 195,000</u>
PROPERTY AND EQUIPMENT — NOTES 1 AND 2:		
Petroleum and natural gas leases, reservations and royalty interests:		
Productive properties, including well development costs, less accumulated depletion (1964—\$951,622; 1963—\$872,074) . . . . .	\$ 979,091	\$ 557,316
Undeveloped properties . . . . .	349,773	344,228
Production and other equipment, less accumulated depreciation (1964—\$427,334; 1963—\$407,454) . . . . .	112,445	44,229
	<u>\$1,441,309</u>	<u>\$ 945,773</u>
OTHER:		
Sundry investments — at cost . . . . .	\$ 3,955	\$ 1,981
Drilling and other deposits . . . . .	28,948	53,463
	<u>\$ 32,903</u>	<u>\$ 55,444</u>
	<u>\$2,981,907</u>	<u>\$2,944,323</u>

The accompanying notes form an integral part of the financial statements.



# CONSOLIDATED BALANCE SHEET

MAY 31, 1964

(with comparative figures at May 31, 1963)

## LIABILITIES

1964

1963

### CURRENT:

Bank loan, secured . . . . .	\$ 1,000	\$ 61,000
Accounts payable and accrued liabilities . . . . .	261,056	179,205
Deposits on ventures . . . . .	41,767	22,418
Total current liabilities . . . . .	<u>\$ 303,823</u>	<u>\$ 262,623</u>

### SHAREHOLDERS' EQUITY:

#### Share capital — Note 4:

Authorized — 5,000,000 shares of a par value of 10 cents each

Issued — 3,396,900 shares . . . . .	\$ 339,690	\$ 339,690
Paid-in surplus . . . . .	6,187,268	6,187,268
Deficit . . . . .	(3,848,874)	(3,845,258)
	<u>\$2,678,084</u>	<u>\$2,681,700</u>

Approved on behalf of the Board:

B. W. WATSON, *Director*

B. O. JONES, *Director*

\$2,981,907

\$2,944,323

This is the balance sheet referred to in the report of  
Peat, Marwick, Mitchell & Co., Chartered Accountants, dated July 30, 1964.

# CANADIAN HOMESTEAD OILS LIMITED *and subsidiary companies*

## CONSOLIDATED STATEMENT OF EARNINGS AND DEFICIT

YEAR ENDED MAY 31, 1964

(with comparative figures for the 1963 year)

	1964	1963
INCOME:		
Sales of crude oil and natural gas . . . . .	\$ 318,744	\$ 305,236
Management and consulting fees . . . . .	238,726	280,675
Royalty income . . . . .	115,794	84,752
Interest and other income . . . . .	71,720	49,674
	<u>\$ 744,984</u>	<u>\$ 720,337</u>
EXPENSES:		
Well operating . . . . .	\$ 84,462	\$ 94,930
General and administrative . . . . .	423,852	354,874
Interest . . . . .	2,635	1,848
	<u>\$ 510,949</u>	<u>\$ 451,652</u>
EARNINGS BEFORE DEPRECIATION, DEPLETION AND OTHER CHARGES . . . . .	<u>\$ 234,035</u>	<u>\$ 268,685</u>
OTHER CHARGES — NET:		
Exploration and abandonments . . . . .	\$ 69,617	\$ 104,067
Undeveloped property rentals . . . . .	73,450	24,134
Loss (gain) on capital asset disposals — net . . . . .	(15,946)	259
	<u>\$ 127,121</u>	<u>\$ 128,460</u>
NET EARNINGS BEFORE DEPRECIATION, DEPLETION AND SPECIAL CHARGE . . . . .	<u>\$ 106,914</u>	<u>\$ 140,225</u>
Depreciation and depletion . . . . .	110,530	97,691
NET EARNINGS (LOSS) BEFORE SPECIAL CHARGE . . . . .	<u>\$ (3,616)</u>	<u>\$ 42,534</u>
SPECIAL CHARGE:		
Provision for decline in market value of investments . . . . .	—	61,198
NET LOSS FOR THE YEAR . . . . .	<u>\$ 3,616</u>	<u>\$ 18,664</u>
DEFICIT AT BEGINNING OF YEAR . . . . .	3,845,258	3,826,594
DEFICIT AT END OF YEAR . . . . .	<u><u>\$3,848,874</u></u>	<u><u>\$3,845,258</u></u>

The accompanying notes form an integral part of the financial statements.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 1964

### 1. BASIS OF CONSOLIDATION:

The accompanying consolidated statements include the accounts of Canadian Homestead Oils Limited and all of its subsidiary companies. The excess of the purchase price of the shares of subsidiary companies over the net book value of such shares at the dates of acquisition amounted to \$243,855. Of this amount \$217,130 has been included in the consolidated balance sheet under the heading of productive properties and \$26,725 is included in consolidated deficit.

The financial statements of a subsidiary company were presented in United States dollars, and have been included in the accompanying financial statements on a dollar for dollar basis. At May 31, 1964 this company had an excess of liabilities over assets of \$31,967 (U.S.) and its operations for the year then ended resulted in a loss of \$1,789 (U.S.). At May 31, 1964 United States dollars were quoted at a premium of approximately 8% in Canadian dollars.

### 2. ACCOUNTING POLICY:

The company's practice is to capitalize leasehold acquisition costs and drilling costs of producing wells, and to charge off to expense exploratory expenses, non-productive drilling costs and carrying costs of non-producing properties. Depletion of producing land and well drilling costs is calculated on the unit of production method based on estimated oil and gas reserves. Depreciation of production and other equipment is calculated on the straight line method at rates based on the estimated useful life of the asset.

Petroleum and natural gas leases, reservations and development costs of Canadian Homestead Oils Limited were written down upon conversion of no par value shares on August 1, 1950; all subsequent acquisitions of royalties, production, automotive and other equipment are valued at cost.

### 3. NOTES RECEIVABLE:

The notes receivable are as follows:

Non-interest bearing, payable \$5,000 per month .....	\$195,000
Less amounts due within one year .....	60,000
	<hr/>
	\$135,000
Due from a director, payable October 31, 1968 with interest at 5% per annum commencing October 31, 1965 .....	92,705
	<hr/>
	<u>\$227,705</u>

### 4. CAPITAL STOCK:

The company has set aside, subject to approval by the shareholders, 125,000 common shares for issue pursuant to a stock option plan for officers and employees of the company and its subsidiaries.

Information as to options granted and terminated during the year ended May 31, 1964 is as follows:  
Shares under option at May 31, 1963:

170,000 shares at an exercisable price of \$1.25 per share.

Options terminated:

170,000 shares at an exercisable price of \$1.25 per share.

